C1850-4

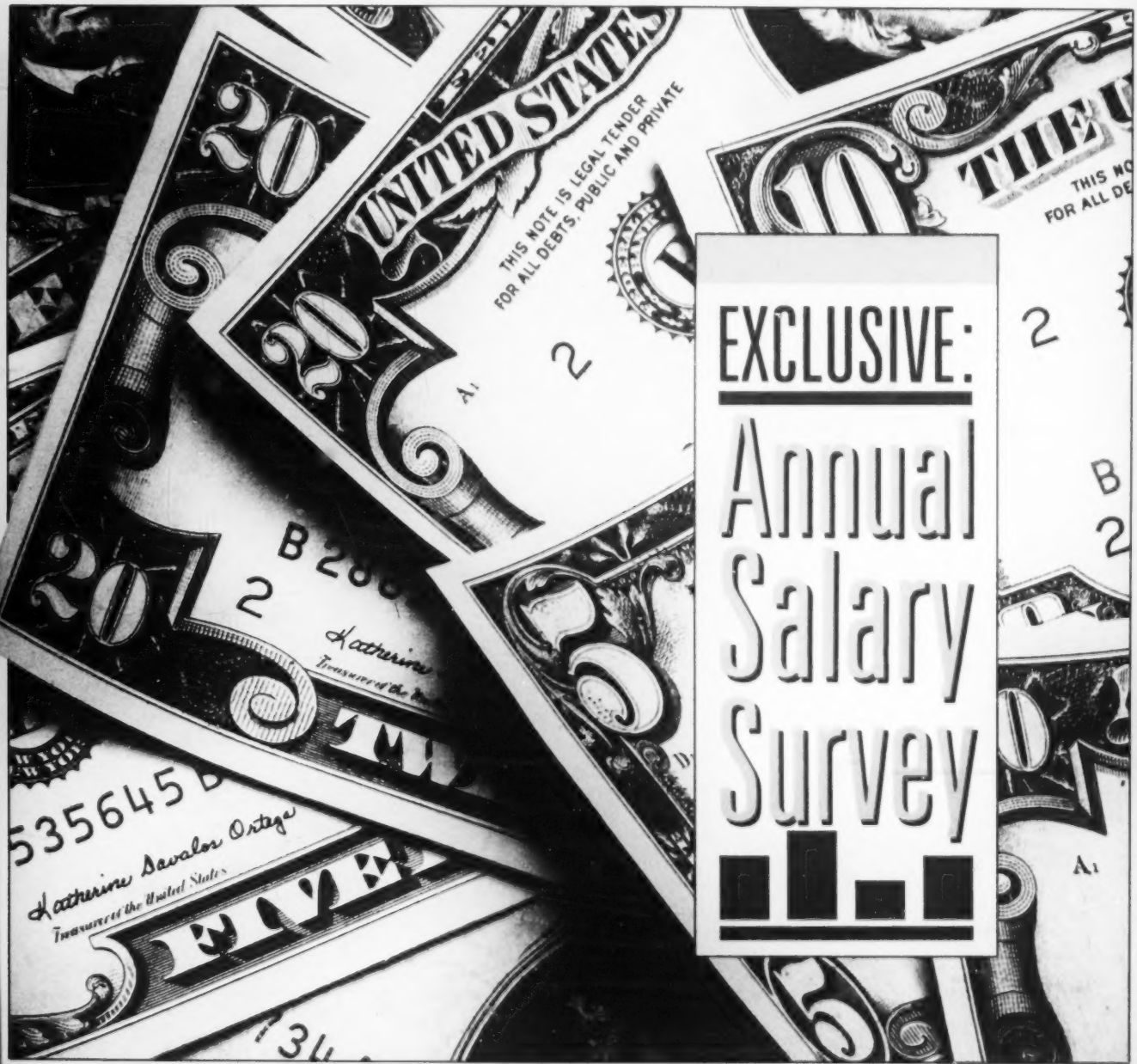
NOVEMBER 1989
A CAHNERS PUBLICATION

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Power tool & hand tool SHOWCASE



Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 11 NOVEMBER 1989 A CAHNERS PUBLICATION

ID's exclusive survey reveals that there's more than money at the heart of distribution harmony.

MARKET FOCUS

35 More drive for PT belting

Design and manufacturing improvements, technical expertise and computerized services energize PT belting sales.

EXCLUSIVE SALARY SURVEY

43 Do you earn what you deserve?

INDUSTRIAL DISTRIBUTION's most comprehensive *Salary Survey* ever measures take home pay, benefits and job satisfaction.

SPECIAL SUPPLEMENT

S1 PORTABLE POWER & HAND TOOL SHOWCASE

Don't miss this special pull-out section containing market analyses, profiles, technical overviews, and valuable manufacturers' listings for the full range of tools your construction customers buy (*Follows page 56*).

IMC SHOW PREVIEW

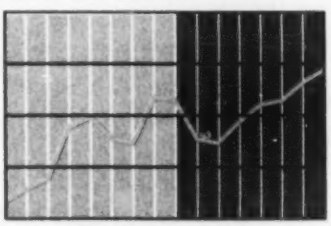
109 Exploring the automation universe

Prepare for the November 13-15 gathering of motion control distributors, suppliers and buyers in Chicago's McCormick Place by studying *ID's* in-depth preview of motion control exhibits.

MANAGEMENT

9 Inside Distribution
This year *ID* received a record number of salary survey responses.

144 Business Report
Construction outlook sees a flat '90, upturn not expected until '91.



147 Supply Outlook
Leadtimes and inventories shrink, prices stable.

152 Clifton's View
Trade pact with Canada sets stage for a "win-win" scenario.

SALES & MARKETING

113 Strictly for Sales
Learn how to control the rising cost of sales calls.

DISTRIBUTOR'S UPDATE

5 At Press Time
Shingle & Gibb expands; Regal-Beloit adds lines; DISC unveils new software.

15 News
Court upholds full-line forcing; Jenkins back in business; Emerson & Bosch in Vermont American deal.

33 Washington

115 Association News

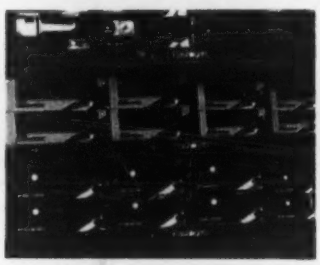
117 Calendar

149 Advertisers' Index

PROFITABLE IDEAS

119 Computers
Dot matrix flexibility generates quality bar codes.

123 Profit Makers



New products you can carry.

137 Sales Aids
New brochures, spec sheets, and supplier catalogs.

149 Business Staff

150 Classified Marketplace

Industrial Distribution

EDITOR-IN-CHIEF
John J. Keough

MANAGING EDITOR
George M. Fodor

ASSOCIATE EDITOR
John G. F. Bonnanzio

ASSOCIATE EDITOR
Steve Zurier

PRODUCTION EDITOR
Katherine L. Zwald

EDITORIAL ASSISTANT
Diane A. Mercurio

ART DIRECTOR
Mary Anne Ganley Banuelos

ASSOCIATE ART DIRECTOR
Deborah Queally

CONTRIBUTING EDITORS
Kris Bledowski
Robert G. Clifton
Anne Millen
Van Ness Philip

EDITOR-AT-LARGE
George J. Berkwitt

PUBLISHER
John R. Kovacs

VICE PRESIDENT/PRODUCTION
A. Wayne Hulitzky

DIRECTOR PRODUCTION/ MANUFACTURING
John Sanders

PRODUCTION MANAGER
Harvey Solomon

PROMOTION MANAGER
Patricia Grant

CIRCULATION MANAGER
Barbara Ruffner

PRESIDENT
Terrence M. McDermott

SENIOR VICE PRESIDENT
GENERAL MANAGER, BOSTON DIV.
Frank Sibley

EDITORIAL OFFICES
275 Washington St.
Newton, MA 02158
(617) 964-3030

Cahners Publishing Company
A Division of Reed Publishing USA

BPA
ABP

Cahners Publishing Company, A Division of Reed Publishing USA ☐ Specialized Business Magazines for Building & Construction ☐ Manufacturing ☐ Foodservice & Lodging ☐ Electronics & Computers ☐ Interior Design ☐ Printing ☐ Publishing ☐ Industrial Research & Technology ☐ Health Care ☐ Entertainment. Specialized Consumer Magazines: American Baby ☐ Modern Bride

INSIDE DISTRIBUTION

ID's annual salary survey

We expected a good response to our salary questionnaire which appeared in our June issue. But we didn't expect the deluge of mail that we received as questionnaires poured in to our Newton, MA headquarters from all parts of the country. A final tally showed nearly 900 people had taken the time to respond, the highest number of questionnaires ever returned for our annual survey. This response enabled us to develop a solid picture of salaries of various job categories within a distributorship: from chairman right to front counter salespeople. In preparation for the survey report (p. 43) *ID* editors sifted through the questionnaires to develop the following snapshot of the typical respondent.

Average Compensation— $64,266
Age— 44
Years of industrial distribution experience— 17
Years with present company— 12
Gender— Male 94%

In all, 48% of the respondents identified themselves as general line distributors, 41% as specialists and 11% as working in combination houses. The respondents averaged a 10.14% salary increase last year and more than 75% expect to receive a similar increase this year. And more than 60% of our respondents say they believe that distribution pays as much or more than other industries. In fact, 69% say they would encourage others to pursue a career in distribution. One statistic that stood out in our survey was that 11% of outside salespeople and 48% of inside salespeople report they receive no form of incentive compensation. This may be an area where distribution's top executives might take a second look. A Northeast distributor recently told us that he had instituted an incentive compensation plan for his inside salespeople. The result: their sales have skyrocketed. Instituting a similar plan in your business might also be as successful.

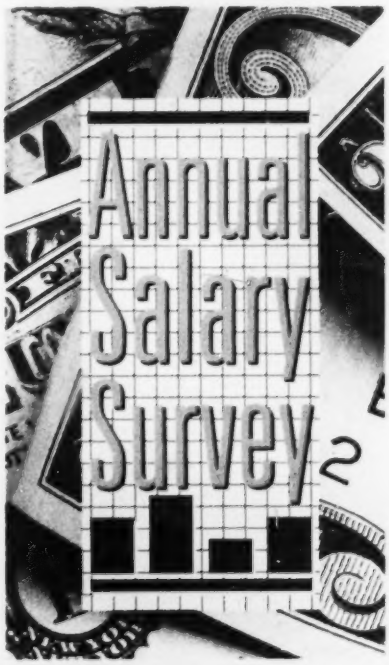
Also this month we present a special pull-out section on power tools, hand tools and accessories.This extensive supplement gives an overview of the market as well as describing how two distributors take different, but successful, approaches in selling power tools. We also provide a listing of power and hand tools manufacturers. Note that we now have a form on our reader service card for you to evaluate our editorial. Please take the time to fill out the card and return it to us. It will help us better evaluate your editorial needs. ☐

Jack Keough

Do You Earn What You Deserve?

Industrial Distribution's most comprehensive Salary Survey ever measures take home pay, benefits, and job satisfaction.

By John G.F. Bonnanzio, Associate Editor



How do you measure what you are worth to your employer? Or, for that matter, how can you be sure that you're keeping pace with owners and partners in other distributorships? While determining an employee's "value" to a company is, at best, an elusive proposition, until now, industrial distributors have lacked a basic compensation yardstick in which to measure themselves.

Although many surveys have been prepared in the past by both this publication as well as various trade associations, no previous effort has attempted to link a relationship among such variables as prior work experience, age, gender, job title, region, distributor sales size, type of distributorship, perks, compensation, benefits received (and benefits desired), as well as several measures on relative career satisfaction.

Presented here are some 600 pieces of data culled from the tens of thousands generated from the 1989 SALARY SURVEY. Questionnaires were distributed to over 42,000 of *ID* 's readers in our June 1989 issue. Of those, 882 responses were received, providing a margin of error of ±4%.

There are no fewer than 13 different ways for *ID* 's readers to compare their wages to an industry average. Which raises an important point: in most cases averages are presented in these charts when a statistical base is similar or large enough to warrant their use. In other cases, medians have been used, which indicates a statistical midpoint: half of all respondents will fall above and below a given number.

All of which leads us to the original question at hand—"Are you paid what you deserve?" Your employer might have a different view than you, but finally, *ID* 's readers (employers as well as employees), have some ammunition to back their claims.

Where the dollars are

Outside salespeople might take note that the company purchasing manager, who can enjoy staying out of the weather, earns nearly as much with more of the comforts. Likewise, the sales VP and company treasurer are on roughly equal footing.

COMPENSATION BY JOB TITLE

(1988 average)

Average	Owner	CEO/Pres	Treasurer	VP Sales
$64,268	$109,897	$114,904	$82,587	$59,495
Purchasing Manager	**Ass't Sales Manager**	**Outside Salesperson**	**Inside Salesperson**	**Counter Sales**
$35,058	$43,572	$38,443	$28,869	$28,080

Which region pays the best?

an industrial distributors find their pot o' gold by heading west? Perhaps, but first keep this in mind. Most respondents from the West are from California, where the cost of living is hardly competitive. So who's really better off? Probably the employees in the Midwest, where living expenses are not nearly so high.

REGIONAL COMPENSATION BY JOB TITLE

(1988 median in dollars)

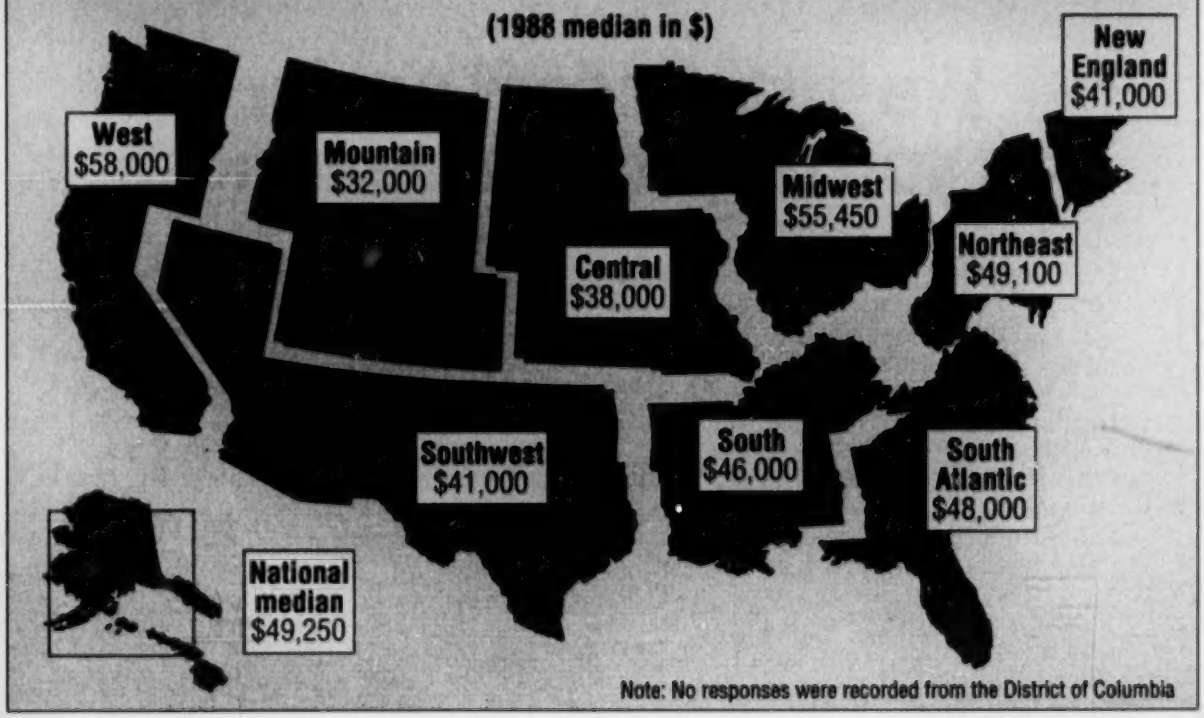
Title	Owner	CEO	Treasurer	VP Sales	Purchasing Manager	Ass't Sales Manager	Outside Sales	Inside Sales	Counter Sales
New England	$100,000	$106,500	$46,000	$40,000	$32,000	$44,200	$32,000	$21,500	N.A.
Northeast	93,000	119,000	51,868	59,500	39,000	36,000	40,000	28,250	20,000
South Atlantic	90,850	76,000	51,000	50,000	30,200	36,500	39,500	23,000	26,000
South	117,000	71,500	48,000	54,000	27,975	33,000	40,000	31,000	22,000
Midwest	105,211	111,062	73,081	58,334	32,005	45,421	42,191	25,797	12,600
Central	76,500	N.A.	54,000	57,000	27,400	43,375	34,770	16,000	N.A.
Mountain	N.A.	70,000	32,560	58,000	35,000	29,900	N.A.	N.A.	N.A.
Southwest	104,250	104,000	50,500	36,100	25,750	45,000	29,815	26,600	N.A.
West	92,500	105,000	60,500	66,000	35,000	36,900	32,000	23,000	19,200
Median Total	91,700	101,350	56,000	54,000	31,000	39,000	36,100	23,280	21,000

N.A. = Data not available.

Where you work counts

From region to region most salary ranges appear consistent, although the spread between more highly compensated employees to those with the lesser paying jobs is greater. In the Midwest, eight of nine job categories pay more than the national average, in the west, top management earns well above the norm.

WHICH REGION PAYS BEST?



Experience pays, to a point

At some levels of distribution, persistence appears to pay off until about 25 years into a career. After that time, our data indicates that most salaries start to head south, and so goes their commissions. Why? One possibility is that key people get to take it a bit easier. Another theory contends that older individuals tend to work at older, less innovative, and therefore less profitable companies. But then again, it's only a theory.

COMPENSATION BY EXPERIENCE

(average salary by years of distribution experience)

Experience in yrs.	3 or less	4–7	8–15	16–20	21–25	26–30	31–35	36 +
Average	$35,378	$39,845	$55,205	$71,863	$88,735	$76,749	$99,212	$76,739
Owner	78,500	111,000	112,303	98,787	115,060	104,568	148,133	97,662
CEO/Pres.	30,000	59,750	75,249	128,943	161,813	101,185	125,400	117,708
Treasurer	45,800	50,493	59,920	67,234	76,564	68,261	74,110	50,900
VP Sales	42,460	45,561	58,679	67,247	60,305	70,889	69,675	50,850
Purchasing Manager	40,367	24,561	35,200	38,029	29,875	43,450	39,750	57,971
Ass't Sales Manager	36,000	35,808	42,760	56,233	45,775	35,925	61,133	45,000
Outside Sales	30,990	33,670	37,339	44,332	46,761	50,369	40,000	30,125
Inside Sales	18,344	21,756	32,639	34,631	31,070	27,987	24,500	28,620
Counter Sales	12,000	12,600	24,200	N.A.	19,200	N.A.	N.A.	N.A.

N.A. = Data not available.

SALARY INCREASE BY JOB TITLE

(% range of last increase)

Range	Avg % increase	1-5%	6-10%	11-15%	16% +
% receiving increase	10.14	39	35	12	14
Owner	13.51	32	32	14	22
CEO/Pres.	11.11	25	44	16	15
Treasurer	10.23	28	43	16	13
VP Sales	10.15	33	39	16	12
Purchasing Mgr	8.10	55	23	10	12
Asst Sales Mgr	8.84	48	31	4	17
Outside Sales	9.81	43	25	13	19
Inside Sales	6.29	56	32	8	4
Counter Sales	4.67	78	22	–0–	–0–

Staying ahead

While the average distributor received a 10.14% salary increase, owners took particularly good care of themselves, while purchasing managers and others all underperformed the average.

Age matters

Distributors do get older but, apparently they also get happier. The bad news, however, is that the average age is 50 before most people would rate their careers in distribution as "very satisfying."

CAREER ATTITUDE BY SALARY

(% of respondents by age group)

*Total compensation

COMPENSATION BY DISTRIBUTOR SALES SIZE

(dollar volume in millions)

Sales Size	< $1M	$1M-3M	$3-6M	$6-10	$10-20M	$20M+
Total	$37,750	$59,291	$63,320	$80,000	$88,450	$62,579
Owner	51,900	82,383	119,090	140,345	188,800	210,757
CEO/Pres	56,450	89,605	92,254	166,965	127,235	134,875
Treas	49,150	44,907	59,191	62,254	65,651	71,134
VP sales	36,750	43,060	53,327	59,156	64,536	77,393
Purchasing manager	28,750	33,038	31,824	36,840	42,209	38,352
Asst. Sales Mgr	N.A.	36,450	42,356	35,977	43,178	48,000
Outside sales	33,662	36,274	40,062	37,177	33,786	43,544
Inside sales	28,697	22,395	25,454	N.A.	29,126	28,175
Counter sales	N.A.	17,300	N.A.	20,000	N.A.	26,067

N.A. = Data not available.

For top jobs, bigger is better

Inside salespeople working for companies with annual sales of less than $1 million earn as much as those working for companies with sales above $20 million. However, when comparing those with more management responsibilities, the difference in earnings becomes much greater. Overall, the trend lines favor employees working for larger firms, even for counter salespeople.

COMPENSATION BY BUSINESS TYPE

(average salary in dollars)

Business type	Generalist	Specialist	Combination House
Total	$55,890	$71,886	$74,190
Owner	97,961	112,001	138,583
CEO/Pres	116,568	109,749	137,700
Treasurer	58,450	85,199	68,555
VP Sales	59,891	58,045	61,383
Purchasing Manager	32,562	35,953	42,744
Ass't Sales Manager	39,292	46,976	41,774
Outside Sales	38,061	38,504	44,764
Inside Sales	30,290	28,572	29,867
Counter Sales	31,025	20,000	12,600

Combo houses pay best

In most cases, it appears that working for a combination house, that is, those selling to non-industrial aftermarkets, is a more lucrative proposition than working for either a generalist or specialty distributor. One explanation: According to *ID's 1988 Survey of Distributor Operation's*, combination houses enjoy the highest return on investment of the three groups.

HOW MEN & WOMEN COMPARE

Gender	Males	Females	Total
% survey respondents	94%	6%	—
Average Age	44	38	44
Years of distribution experience	18	11	17
Years with present company	13	9	12.5
People reporting to respondent	10	5	9
1988 compensation	$65,988	$35,902	$64,286
Last salary increase	10.10%	10.95%	10.14%
Receives incentive compensation	73%	57%	82%
Satisfied with compensation methodology	94%	56%	84%
"Very satisfied" with career	47%	48%	47%
"Somewhat satisfied" with career	39%	44%	39%
"Marginally satisfied" with career	11%	8%	11%
"Disappointed" with career	3%	0	3%

How men and women compare

A quick look at compensation shows a wide difference in remuneration between men and women in industrial distribution. But surface comparisons are unfair. First, only 6% of the SURVEY's respondents are women, who are younger, have far fewer years of industry-related experience and therefore, fewer individuals reporting directly to them. Second, men overwhelmingly hold management or sales positions, which are typically higher paying jobs. Nonetheless, women seem just as satisfied with their careers as men, and both enjoyed similar salary increases.

Perks: Not everyone gets them

The meek may one day inherit the earth, but it seems that if they work for an industrial distributor, it could be a long time coming before they own a stake in their employer's business. In examining the benefits provided to employees of industrial supply houses, there was little surprise that those individuals who earn the least, enjoy far fewer benefits than those who are more highly compensated. In terms of fringe benefits, distribution's employees receive the following benefits: profit sharing plan (52%); pension plan (42%); 401(k) (31%); or salary investment plan (13%).

The most common benefit offered to employees is life insurance (84%), followed by a company car and partially paid health (54%). Benefits most desired are: dental coverage (43%); 100% paid health (41%); pension plan (33%); and profit sharing (29%). The benefits below express the wide difference in perquisites received by distribution's most highly compensated employees (CEOs), least compensated employees (counter salespeople) and the industry's standard. As the average age of women in this SURVEY is 38, neither day care assistance or parental leave were rated as highly desirable benefits.

WHO GETS WHICH BENEFITS...

(% receiving benefits)

	Average	Job function		Gender		Age					
		CEO/Pres	Counter	Male	Female	29 or less	30-39	40-49	50-59	60-65	66+
Life insurance	84%	90%	84%	85%	85%	75%	87%	87%	85%	85%	70%
Partially paid health	54	35	32	54	58	55	61	55	40	54	30
Profit sharing	52	57	54	53	51	48	47	55	51	54	70
100% paid health	44	66	18	45	36	35	37	44	58	46	65
401(k)	22	24	9	31	32	31	34	33	28	33	15

...AND WHO WANTS WHAT

(% wanting benefits)

	Average	Job function		Gender		Age					
		CEO/Pres	Counter	Male	Female	29 or less	30-39	40-49	50-59	60-65	66+
Dental plan	43%	25%	67%	44%	43%	58%	46%	37%	30%	43%	18%
100% paid health	41	11	76	41	47	32	32	36	31	34	18
Profit sharing	29	11	44	30	30	32	32	30	31	34	18
Day care assistance	17	5	44	16	20	27	27	11	6	14	18
Parental leave	10	6	22	10	13	18	14	6	4	12	6

How distribution pays its salespeople

The percentage of distribution's employees engaged in sales but receiving no incentive compensation is one of the most important findings of this SURVEY. Although the vast majority of outside salespeople are dependent on one of several forms of commission, 48% of inside salespeople and 60% of those selling at the counter are not provided with performance incentives. Unfortunately, there is no data indicating how long these individuals stay with their employers.

TYPE OF COMPENSATION BY JOB TITLE

(% receiving incentive compensation*)

Job Function	VP Sales	Asst Sales Manager	Outside Sales	Inside Sales	Counter Sales
Individual sales volume performance	22	8	48	28	20
Company or branch sales volume performance	34	36	6	16	20
Individual profitability	7	12	33	8	0
Company or branch profitability	37	33	8	17	30
No incentive compensation	25	23	9	48	60

*Totals do not equal 100% due to multiple responses.

How distributors like their work

As one might expect, the more an employee earns, the greater their job satisfaction. Although the vast majority of individuals are satisfied with the method used to determine their compensation, relatively few believe that distribution pays more than other industries.

When career satisfaction is measured by job title, vast differences emerge. While owners and CEOs are the most enthusiastic about their careers, inside and counter salespeople seem somewhat disenchanted, although most would encourage others into the industry.

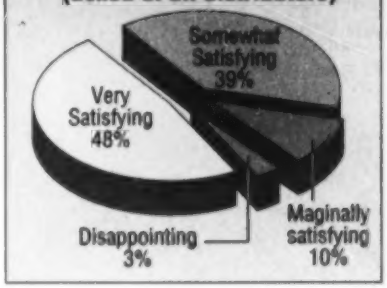
CAREER SATISFACTION BY COMPENSATION

(% of respondents)

Salary	Less than $30K	40	50	60	70	80	100	125	175	>175
Very satisfied with career	22	33	48	46	55	58	62	71	75	76
Would encourage others to pursue a career in distribution	47	60	71	74	74	81	88	86	77	81
Believes distribution pays more than other industries	4	8	10	19	16	28	21	21	26	45
Satisfied with method used to figure compensation	32	49	60	68	71	81	86	92	97	86

HOW SATISFYING IS YOUR CAREER?

(asked of all distributors)

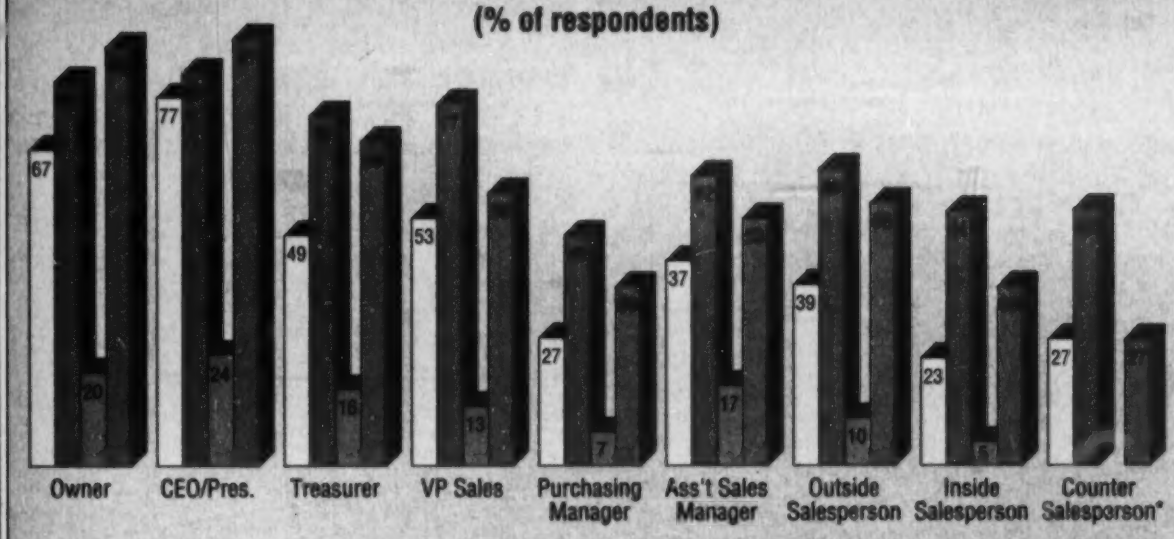


Measuring attitude by responsibility

The chart below measures the relationship between job function and an employee's view of industrial distribution as a career. As can be readily seen, workers with fewer responsibilities than those with the greatest responsibilities, are far less satisfied with their careers and are less likely to encourage others to pursue a career in industrial distribution. Irregardless of salary, only a small percentage of distributors believe that their industry pays more than others and, not surprisingly, there are dramatic differences in how satisfied employees are with the method used to determine their compensation.

VIEW OF DISTRIBUTION CAREER BY JOB TITLE

(% of respondents)



*No respondent thought distribution pays more than other industries

Industrial distribution's best paid executive

Although this year's SALARY SURVEY was kept completely confidential (no names were asked, and no names were provided), the age of computers allows data crunchers to examine respondents' surveys in some marvelous ways. What we asked our computer to provide was a profile of industrial distribution's most highly compensated executive. Again, without being able to tell *ID* who this individual is, we thought it permissible to share with you the following details:

1) When asked which job title best described his or her overall responsibilities, there was some surprise. The respondent is not an owner, but rather a company CEO/president.

2) Not surprisingly, respondent #475 in our database also runs a rather large distributorship. Estimated annual sales? Somewhere over $20 million.

3) Although our computer can tell us where industrial distributors' best paid executive is employed, we think this data would provide too much of a clue, and that wouldn't be fair. So let's just say somewhere east of the Mississippi, north of the Mason-Dixon line.

4) Age is always a personal matter, even for Respondent #475. But hey, who could it hurt? Age 48 and presumably counting.

5) By the way, before we go any further, did we already say if we're talking about a man or a woman? The answer is "male," and he runs a general line distributorship, has 24 years experience in the business, and has been with his present company for nearly two decades.

Respondent #475 earns more than seven times the average CEO, and apparently likes his (her?) job a lot.

6) What else can we share. Well, Mr. 475 (as we may now call him), obviously works from his company's headquarter location, believes that the field of industrial distribution pays more than other industries, would encourage others to pursue a career in distribution, received no salary increase last year, but expects a 10% raise in 1990.

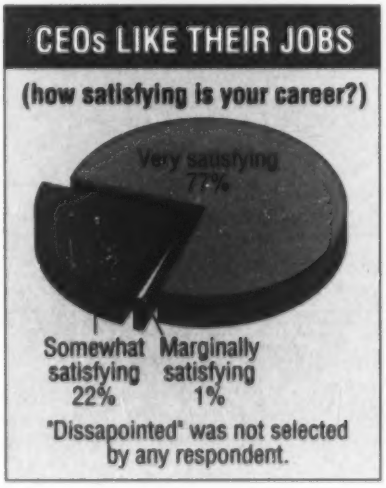
7) But a 10% raise on what, you ask? Mr. 475 reports earning $150,000 in salary last year, as well as a staggering $700,000 bonus. Not to be overlooked were some other ancillary benefits (perhaps membership in an HMO), bringing his total compensation to $860,000. How can we be sure Mr. 475 is telling us the truth. There are no guarantees of course, but his profile is remarkably consistent with other respondents with earnings in the same neighborhood. And with nearly 900 Survey respondents, one, or even a few outrageous responses would bear little statistical significance to the results.

8) By the way, question number 20 of the Salary Survey asked our respondent, "How satisfying is your career?" Any guesses what he said?

Salaries rise for distribution's top dogs

Distributors may complain of eroding markets and shrinking margins, but data obtained from this year's SALARY SURVEY profiles a CEO president whose annual total compensation in 1988 was nearly twice that of the industry's typical employee. Eighty-three individuals identifying themselves as either a company's CEO or president enjoyed an average compensation of $114,804. On the low side, 19% earned less than $60,000; 35% earned between $60,000 and $99,999; 34% between $100,000 and $174,999 and; 12% earned $175,000 or more.

The profile of the typical CEO/president to emerge from the SURVEY is a 51 year old male with 23 years experience in distribution; 19 of those years have been with his present company. Seventy-two percent believe that the distribution business pays as much or the same as other industries, while 28% believe that it pays less. Notwithstanding, 91% are satisfied with the method used to determine their compensation, although a surprising 31% indicate that they receive no incentive compensation. For a mere 1% of CEO/presidents, their compensation is based on individual sales volume performance; company or branch sales volume performance (9%); individual profitability (1%); company or branch profitability (61%).



While *ID's SURVEY OF DISTRIBUTOR OPERATIONS* indicated that sales rose by 8.8% nationally last year, CEO/presidents received an 11.1% raise—second only to owners who improved their wages 13.5% against an industry average of 10.2%. In comparison, the average counter salesperson (who is least compensated among all SURVEY respondents at $28,000), experienced a 5.0% salary increase during 1988. When the CEO/president was asked if they would encourage others to have a career in industrial distribution, 83% replied "yes."

A Year of Robust Sales

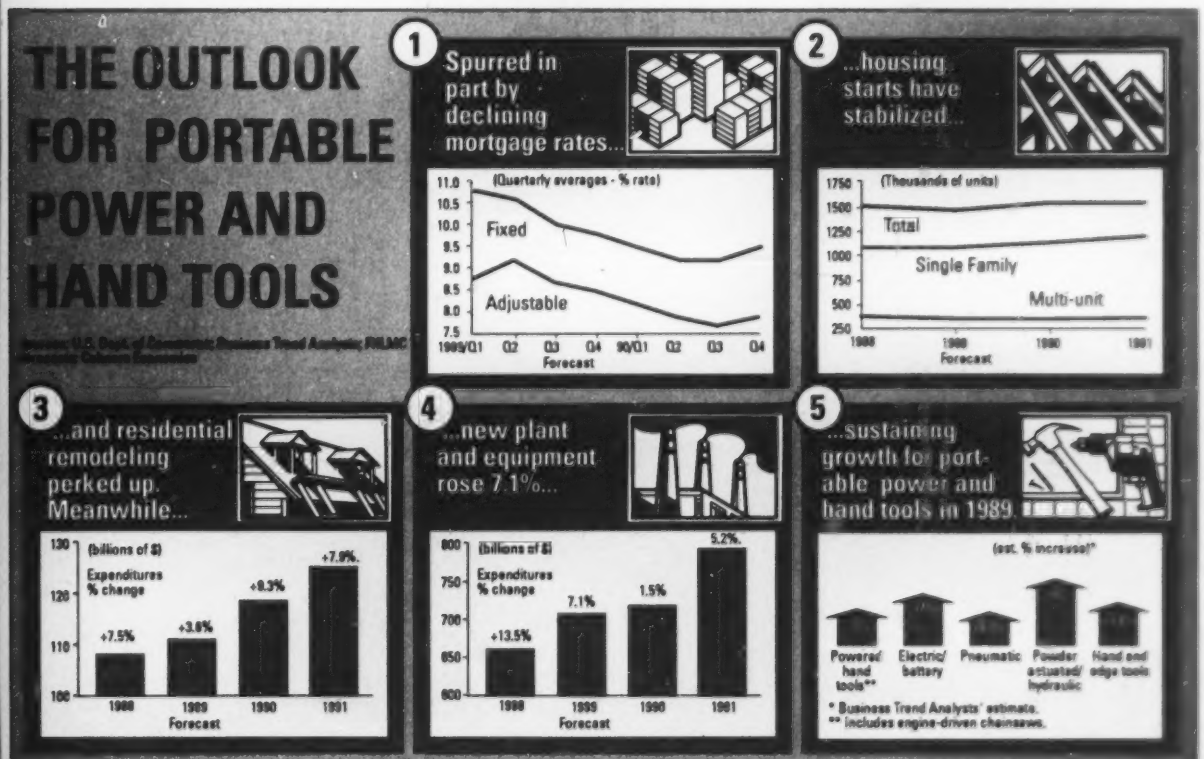
By John G.F. Bonnanzio, Associate Editor

First, listen to the way manufacturers describe 1989's selling season—From Dennis Means of the Wright Tool Company: "the best year in 60 years;" From Mike Convey of Black and Decker: "substantial double-digit growth;" And from Mike Schmidt of Milwaukee Electric Tools: "1988 was a record year, as will be 1989 and 1990."

And others report similar activity. Says Pat Griffin, Makita U.S.A.'s VP of marketing, "So far we're not at forecast, but then again, we had a pretty good forecast." Griffin notes that his company's sales of power tools and accessories "has grown across the board" with 1989's sales likely to finish ahead of last year's mark in the 12% real growth range.

Although there isn't reason to doubt manufacturers' claims of robust sales, some industrial distributors were quick to observe that much of the sales action has managed to elude them for a wide variety of reasons. For H.J. Bailey of Builders Equipment Co. in Decatur, GA, the problem has been one of over-building during the 1980s. Because of this, he expects his sales to slide between 5% and 10% this year. But such is the nature of distributors supplying product to the regional construction trades, as that business turns its inventory on the cyclical over- and under-supply of housing and commercial construction stock.

Assuming that distributor's sales have not matched the performance of their suppliers (a conclusion which is based solely on telephone conver-



sations—and not data—with supply houses and manufacturers alike), one can reasonably make the following assumptions: 1. Some portion of domestic manufacturing's output of power and hand tools is being shipped abroad for export trade and; 2. The supply of product reaching the end user is by-passing the traditional industrial/construction distribution channel.

In fact, data does support the first premise about expanding export trade, a positive development welcomed by manufacturers and one that should be cheered by distributors. According to Dept. of Commerce estimates, American manufacturers of power-driven hand tools will ship $2.2 billion worth of products during 1989 (60% of which are engine-driven chain, concrete and cut-off saws). Since 1987, imports have risen less than 5% annually from $868 million to $954 million in 1989. However, at the same time, exports increased 33% from $343 million to $516 million. So while manufacturers can proudly boast of skyrocketing sales, it would appear that an increasing proportion of their products are not being purchased domestically.

As for the second assumption, that more of the power and hand tool market is being sold through alternative, or non-professional distribution channels, that's the grist for a hot debate. On the hand tool side, most would agree that the industrial and construction distributor has far fewer problems with the mass merchandisers and catalog houses than do suppliers of powered hand tools. Even so, says Rick Bodenschatz, the national sales manager for Swedish-based BAHCO Tools, "There is an upgrade going on within the DIY market."

And is there ever. Although some manufacturers treat this purchasing shift by marketing different products and product lines to different end users, just as many have responded to this change by placing their products on the mass merchants' shelves.

And who could really blame them? Most sources contacted for this article privately admitted that the DIY market is now the fastest growing segment among purchasers of power and hand tools. At the same time, says L. Storm Bailey, Skil Corp.'s VP of sales and product services, "the traditional industrial distributor has found his market eroding from all sides."

The year ahead looks good

Distributors of power tools and hand tools can expect a reasonably good year for sales in 1990, providing the following occurs: 1) Mortgage rates remain relatively low prompting new housing construction and remodeling; 2) The value of the dollar remains weak, sustaining export trade and thus new plant and equipment investments; 3) Advances continue to be made in cordless power tool technology, which is the fastest growing sector of the tool market and; 3) DIYers and professional construction workers continue to purchase cordless tools for what are essentially redundant to the corded products already owned.

As the chart on the previous page illustrates, the outlook for portable power and hand tools looks positive for 1990 as the most important indices for the construction trades and industrial markets all point in the right direction. Although new home construction is an important part of the construction distributor's customer base, residential remodeling is expected to have the most long-term opportunity as the rate of new housing starts begin to slow.

While residential remodeling expenditures will only increase 3.6% this year, Cahners Economics forecast a rise of 9.3% in expenditures in 1990 to $114.4 billion, and a 7.9% increase in 1991 to $123.5 billion. Of the three areas that comprise the remodeling market, construction growth is believed to expand as follows during 1990: maintenance and repairs (+7.4%); additions and alterations (+15.1%) and; major replacement (+17.2%).

In response to this erosion, explains Bailey, general line distributors "reached out to a new customer" with portable electric power tools, and found themselves in competition with the general contractor supply house. "Whereas they were once unique in carrying many lines," says Bailey, "they now have lots of non-traditional competition from companies marketing their products to anyone who'll buy them."

Concedes William Grebe, president of Brock Tool of Maryland (whose company is a member of the construction-oriented Evergreen Marketing Group), "In some areas a Builders' Square may be driving margins down for the distributor." Adds Milwaukee's Schmidt, "We can't assume that professionals only shop from the professional distributor."

NEW KID ON THE BLOCK

While distributors have always faced competition to some extent from lumber yards, HVAC supoliers, auto suppliers and the like, the large mass merchants are still relative newcomers when it comes to competing for distributor's sales. What everyone will admit they do well, and that most distributors don't, is "merchandise" their products in every sense of the word.

Says Robert Cannon, Channellock, Inc.'s VP of sales, "Some of the methods used to sell tools have changed. Merchandising of products is more important all the time." In fact, chains such as Builders' Square, Home Depot, and Grossman's have built their empires on the notion of reaching out to customers through POP displays, circulars, radio advertising, specials, and perhaps most importantly, late night hours and weekend store openings. Confirms a recent Business Trend Analysts report, "With the substantial growth in the do-it-yourself market, advertising and promotion now play a significant role in the fight for market share."

But now, even the mass merchants have something new to worry about, and its name is Sears. Touting itself from coast to coast as the "Brand Central," Sears, Roebuck & Co., with its considerable purchasing power, formidable advertising budget, unparalleled name recognition, and shear determination to get itself out of a hole, has begun to sell name brand power and hand tools alongside its Craftsman line of tools. Says Michael Loftus, VP of marketing for Klein Tools Inc., "Sears is a competitor for anyone in the hand tool business."

And the same might be said for distributors of power tools. Although the Robert Bosch Power Tool Corp. "only sells industrial grade products through the industrial, independent distributor," says Louis Signorelli, the company's senior VP, distributors can ill afford to ignore the advent of the big chains. "It's a ques-

tion," he says, "of whether they're recognizing a Sears, Roebuck as a competitor or not."

Still others take a more sanguine view of the mass merchants' threat, providing the distributor takes all of the precautionary measures. This would, of course, include carrying the right line of power and hand tools. "Everybody has margin pressures," says Rene Donars, Porter-Cable Corp's. VP of marketing, "but if the distributor is faced with the presence of a Builders' Square, he has got to differentiate his business using value added."

At Construction Tool and Supply in Phoenix, (AZ), company vice president Vince Ferguson says that his company's entire business is built around the concept of value added service. "We like selling to the contractors" he says, "because we know we can provide them with the service that they require." And naturally, those services allow the distributor to charge a premium and boost their margins. At the same time, some manufacturers are advising that distributors should not be bashful about their prices, as long as they're providing something tangible in return.

"What the distributor really needs to do is to stand-up and say 'we have a higher price, but this is what you get for it,' " declares John Boyd, general manager & VP for the AEG Power Tool Corp. But this is a declaration made more easily by companies purposely marketing their products as higher-grade and, therefore, higher priced. Although many other manufacturers maintain that they only sell industrial grade products, Black & Decker Inc. makes no such claims, and instead proudly markets its various lines as it sees fit. Says Mike Convey, the company's VP of sales, "today many people cross over to the consumer markets, and this has been a challenge to the industrial distributor."

When Black and Decker began to segment its product line in 1986, some doubted their ability to build a reputation for durability and quality on the professional side, while simultaneously appealing to the lower-priced DIY market. Three short years later, the company boasts of its success. "For 12 running quarters," reports Convey, "we've experienced substantial double-digit growth and," he adds, "I've heard countless times that Black and Decker is the most profitable line for distributors to carry."

Whether it is or not, only distributors can really say with certainty, while other manufacturers will just as certainly argue whose line provides the highest gross margins. Observes Makita's Griffin, "Power tools are a rough and tumble market. They're a strong draw for customers, and to a man," he says, "it's like a kid in a candy store."

But while today's "kids" are increasingly sophisticated, they can nonetheless be attracted to flashy displays and competitive prices. Warns marketing manager Jim Ippolito of Ryobi America Corp., "Brand loyalty goes right out the window when it comes to price," adding, "the age of distributing through one channel is over." But the age of selling, marketing and merchandising service is not. And as most would agree, that's the distributor's best promise for successfully competing in this market. □

Circle No. 406

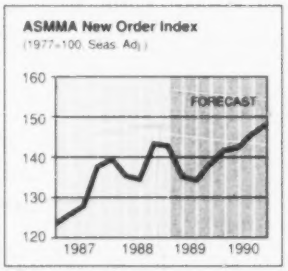
BUSINESS REPORT

BY KRIS BLEDOWSKI

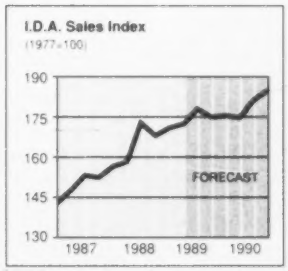
Construction markets weaken

Upturn not expected until 1991

Construction showed a surprisingly strong performance during the first quarter of this year. While growth had been slowing during 1987 and 1988, first quarter new construction spending, adjusted for inflation, was up 3.9% compared to its first-quarter 1988 level. Our preliminary second quarter figures paint a much bleaker picture, however. Total new construction expenditures rose at an annual rate of only 0.7% in July to an annual rate of $353.3 billion. Our forecast calls for flat remaining quarters. Commercial, industrial and institutional construction rose 2.9% at an annual rate in July. The next two years are expected to bring little growth in industrial building beyond increases in inflation. The upturn, which in the first quarter figures was caused by a healthy overall economy, is going to taper off.



Data source: ASMMA
Forecast source: Cahners Economics

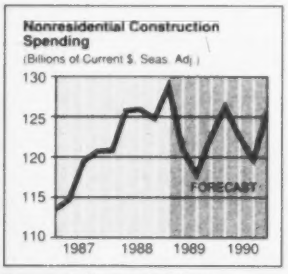


Data source: I.D.A.
Forecast source: Cahners Economics

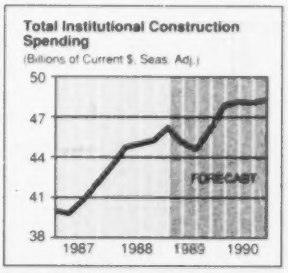
Recently, all three construction sectors (residential, nonresidential and nonbuilding), have exhibited well-defined business cycle patterns. Housing starts, which usually lead the economy, recorded the maximum growth rate in mid-1986 and the lowest in early 1988. Nonresidential and heavy construction, which have later cycles, should experience declining spending levels through mid-1991. In the case of heavy construction, a strong expansion may not start until early 1992.

Top construction markets in 1990 will be concentrated in the West. Revived economic growth is showing up in strong residential and nonresidential markets in California which will account for four of the top ten nonresidential construction markets. In some key Sun Belt markets, such as Dallas, Houston and Atlanta, construction activity has peaked, but reconstruction activity is on the rise.

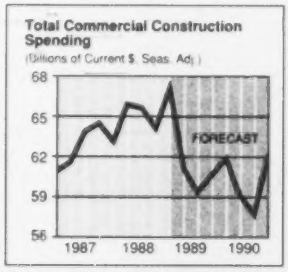
What this means for industrial distributors serving the construction industry is lean times ahead. Output of hardware and tools has been flat in the first quarter, although there was a slight uptick in the second quarter. Our forecast calls for a 1.0% growth this year and 6.5% gain in 1990, just in time for the building expansion in 1991. Industrial distributors should ideally target other end markets which are expected to stay strong. □



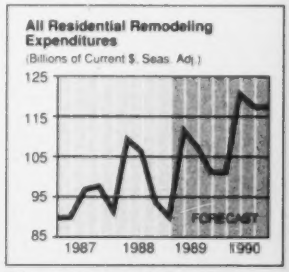
Data source: Commerce Department
Forecast source: Cahners Economics



Data source: Commerce Department
Forecast source: Cahners Economics



Data source: Commerce Department
Forecast source: Cahners Economics



Data source: Commerce Department
Forecast source: Cahners Economics

(1977=100)	SALES Aug. 1989	July 1989	Aug. '89 vs Aug. '88 % change	RECEIVABLES Aug. 1989 days	INVENTORY Aug. 1989 % change
TOTAL	197.5	175.5	12.1	46.1	0.4
EAST	164.4	161.7	9.7	43.5	0.2
SOUTH	280.8	253.5	17.6	35.8	0.3
CENTRAL	164.7	142.0	12.4	57.9	0.6
WEST	208.5	196.5	– 1.2	31.9	0.5

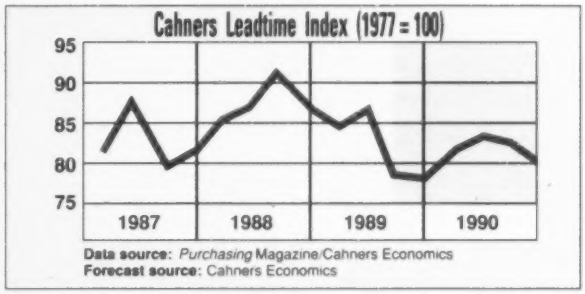
SOURCE: Industrial Distribution Assn.

SUPPLY OUTLOOK

BY ANNE MILLEN

Leadtimes and inventories fall

Prices should remain stable



Leadtimes have continued to fall. In August, Cahners Composite Index of 125 industrial leadtimes plunged 6.0% and in September the index dropped another 1.5%. That represents a 12.0% decline since the outset of the year. Compared to a year ago, 111 leadtimes were shorter in September. Only six categories posted longer leadtimes and eight were the same.

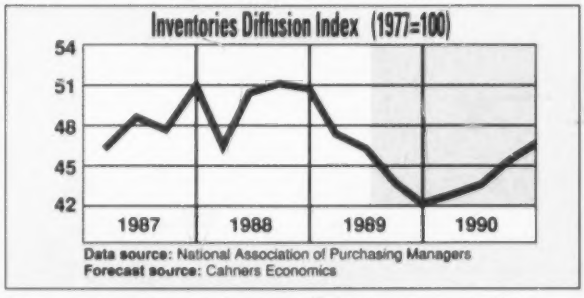
Inventories are still being reduced. According to a recent survey of purchasing managers, 50% are holding inventories steady and nearly 32% are scaling back. Further, the National Assn. of Purchasing Managers (NAPM) indicates inventories have been declining since January.

Both the NAPM survey and Purchasing Magazine's surveys on price trends show more OEM and MRO buyers are reporting low or falling prices right now than in the past two years. In 1987, 75% of Purchasing's buying panel members reported prices were rising, with only 25% reporting prices steady or falling. In August, those percentages had actually reversed. Now 75% of industrial buyers are reporting stable prices.

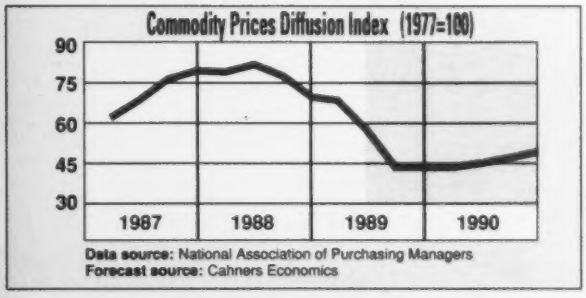
Purchasing managers are also indicating reduced orders, production, and employment levels. The NAPM composite Purchasing Managers Index (PMI) has been below 50% since May. An index value of 50% indicates no change in business activity so, in each month since May, business activity has decreased.

The economy is just now moving into its slowest period of growth and isn't expected to turn around until at least mid-1990. The NAPM PMI is expected to remain below 50% at least through the second quarter of 1990 and, the Cahners Leadtime Index should hover around its current level throughout most of 1990. Easy availability of most goods will keep prices low and/or stable. □

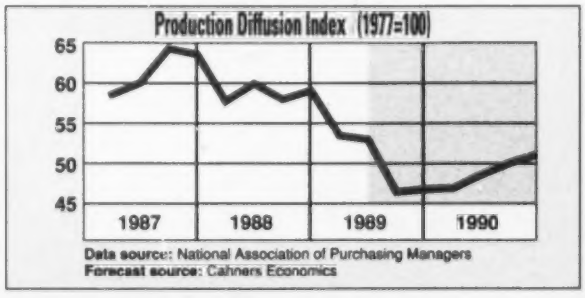
The NAPM order index stood at 45% in August; 55% of businesses surveyed reported stable or declining orders.



The NAPM inventory index stood at 43% in August; 57% of businesses polled reported steady or falling inventories.



The NAPM commodity price index stood at 43% in August; 57% of buyers surveyed reported stable or falling prices.

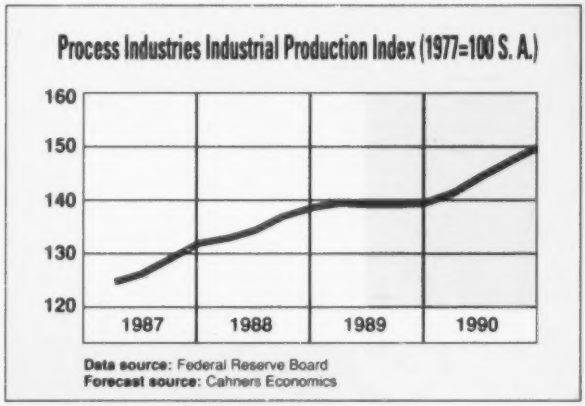


The NAPM production index stood at 46% in August; 57% of businesses surveyed reported cuts in production.

SUPPLY OUTLOOK

Will the process industries slow?

Industrial distributors are reporting brisk business with the process industries. Paper production increased 1.3% between June and July. Chemical output gained 0.5% in July. Production of petroleum products recovered in July to a level higher than that seen at the outset of the year. Output of primary metals rose 2% in July, and the production index covering rubber & plastic products stood 5% higher than in February. Is the slowdown over for the process industries? Not quite yet. Production cuts are not anticipated but the numbers will oscillate around their current levels through mid-1990.



Process industry output is expected to expand by 2.6% this year, and by nearly 5.0% during 1990.

The PMI stood at 45% in August; 55% of the businesses surveyed reported stable or declining business activity.

Industrial Distribution®, (ISSN 0019-8153) is published monthly by The Cahners Publishing Co., A Division of Reed Publishing USA, 275 Washington St., Newton, MA 02158-1630. Terrence M. McDermott, President; Frank Sibley, Senior Vice President/General Manager, Boston Division; Ellsworth M. Brown, Jr., Group Vice President; Jerry D. Neth, Vice President/Publishing Operations; J.J. Walsh, Financial Vice President/Magazine Division; Thomas J. Dellamaria, Vice President/Production and Manufacturing. Circulation records are maintained at Cahners Publishing Co., 44 Cook Street, Denver, CO 80206-5800. Telephone: (303)388-4511. Second-class postage paid at Denver, CO 80206-5800 and additional mailing offices. POSTMASTER: Send address corrections to INDUSTRIAL DISTRIBUTION® at the Denver address. INDUSTRIAL DISTRIBUTION® copyright 1989 by Reed Publishing USA. Saul Goldweitz, Chairman; Ronald G. Segal, President/C.E.O.; Robert L. Krakoff, Executive Vice President; William M. Platt, Senior Vice President. Annual subscription rates for non-qualified individuals: USA, $60 per year; Canada and other countries, $85 per year for surface mail, $175 per year for air mail. Except for special issues where price changes are indicated, single copies of regular issues are available for $10. Please address all subscription mail to Barbara Ruffner, 44 Cook Street, Denver, CO 80206-5800.

REPRINTS: For quotes, contact Reprint Services, 1350 E. Touhy Ave., Des Plaines, IL 60018, (312) 635-8800

SHOP AID
INCORPORATED

Your single source for Slotted Shims

Call today for special end-of-year pricing.

SHOP-AID, INC.
50 Holton St., Woburn, MA 01801

(800) 332-3000
Fax: (617) 932-3931

Circle No. 90

WASHINGTON
SERVING THE INDUSTRIAL DISTRIBUTOR

Camel Grinding Wheels, a cut above the rest.

Your customers want the finest quality grinding wheels. You want increased profits. You both need clear product information and streamline delivery. To be a cut above the rest, the solution is Camel Grinding Wheels from Washington.

- Premium quality
- Fast, cool and free cutting action
- Over 94% shipped same day from our multi-million dollar inventory
- Outstanding support literature
- Excellent pricing

FOR DISTRIBUTOR INFORMATION:
CITY OF INDUSTRY, CA
818-330-3271
TOLL FREE 800-521-3488
FAX 818-330-6967

CAMEL

Circle No. 91